

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Watertown Township		County Sanilac
Audit Date 3/31/05	Opinion Date 6/8/05	Date Accountant Report Submitted to State: 9/26/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tuckey, Bernhard + Doran, PC			
Street Address 715 E Frank Street	City Cura	State MI	ZIP 48723
Accountant Signature James R. Anderson CPA			

WATERTOWN TOWNSHIP
Sanilac County, Michigan

Report on Financial Statements
(with additional information)
Year Ended March 31, 2005

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June 8, 2005

INDEPENDENT AUDITORS' REPORT

Watertown Township
Sanilac County, Michigan

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Township of Watertown as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Township of Watertown's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in the financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township of Watertown's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township of Watertown as of March 31, 2005, or changes in its financial position or cash flows where applicable, for the year then ended.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental financial information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of Watertown Township. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

General Purpose Financial Statements

WATERTOWN TOWNSHIP
COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2005

	<u>GOVERNMENTAL FUND TYPES</u>		<u>FIDUCIARY FUND TYPE</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>AGENCY</u>
<u>ASSETS</u>			
Cash - Checking	\$ 324,116	\$ 22,825	\$ 6,701
Certificate of Deposit	203,205		
Taxes Receivable			79,328
Due from other funds	9,133		
Fixed Assets			
<u>TOTAL ASSETS</u>	<u>\$ 536,454</u>	<u>\$ 22,825</u>	<u>\$ 86,029</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts Payable			\$ 6,701
Due to other funds			9,133
Due to other Governmental Units			70,195
<u>TOTAL LIABILITIES</u>	<u>-</u>	<u>-</u>	<u>86,029</u>
FUND EQUITY:			
Investment in general fixed assets			
Fund Balance - undesignated	\$ 314,633		
Fund Balance - designated	221,821		
Reserved for debt service		\$ 22,825	
<u>TOTAL FUND BALANCE</u>	<u>536,454</u>	<u>22,825</u>	<u>-</u>
<u>TOTAL LIABILITIES & FUND EQUITY</u>	<u>\$ 536,454</u>	<u>\$ 22,825</u>	<u>\$ 86,029</u>

The accompanying notes are an integral part of the financial statements.

ACCOUNT GROUPS	TOTALS (MEMORANDUM ONLY)
GENERAL FIXED ASSETS	
	\$ 353,642
	203,205
	79,328
	9,133
\$ 210,200	210,200
\$ 210,200	\$ 855,508

	\$ 9,133
	70,195
-	86,029
\$ 210,200	210,200
	314,633
	221,821
	22,825
210,200	769,479
\$ 210,200	\$ 855,508

WATERTOWN TOWNSHIP
COMBINED STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED MARCH 31, 2005

	<u>GENERAL FUND</u>	<u>SEWER ASSESS. FUND</u>	<u>TOTALS (MEMORANDUM ONLY)</u>
REVENUE:			
Taxes	\$ 118,126		\$ 118,126
Licenses & permits	12,645		12,645
State revenue sharing	96,024		96,024
State revenue sharing - Metro act	3,797		3,797
Other revenue	<u>13,807</u>	<u>\$ 396</u>	<u>14,203</u>
 TOTAL REVENUE	 <u>244,399</u>	 <u>396</u>	 <u>244,795</u>
EXPENDITURES:			
Legislative	7,348		7,348
Executive	3,373		3,373
Clerk	8,072		8,072
Board of Review	1,189		1,189
Assessor	9,397		9,397
Treasurer	13,869		13,869
Elections	2,789		2,789
Township hall & grounds	9,440		9,440
Planning & Zoning	7,713		7,713
Public works	<u>248,830</u>	<u>7,265</u>	<u>256,095</u>
 TOTAL EXPENDITURES	 <u>312,020</u>	 <u>7,265</u>	 <u>319,285</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	 <u>(67,621)</u>	 <u>(6,869)</u>	 <u>(74,490)</u>
 FUND BALANCE - BEGINNING OF YEAR	 <u>604,075</u>	 <u>29,694</u>	 <u>633,769</u>
 FUND BALANCE - END OF YEAR	 <u><u>\$ 536,454</u></u>	 <u><u>\$ 22,825</u></u>	 <u><u>\$ 559,279</u></u>

The accompanying notes are an integral part of the financial statements.

WATERTOWN TOWNSHIP
COMBINED STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2005

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUE:			
Taxes	\$ 109,103	\$ 118,126	\$ 9,023
Licenses & permits	9,000	12,645	3,645
State revenue sharing	85,203	96,024	10,821
State revenue sharing - Metro act	3,797	3,797	-
Other revenue	13,320	13,807	487
TOTAL REVENUE	220,423	244,399	23,976
EXPENDITURES:			
Legislative	10,150	7,348	2,802
Executive	3,880	3,373	507
Clerk	8,168	8,072	96
Board of Review	2,450	1,189	1,261
Assessor	10,588	9,397	1,191
Treasurer	14,868	13,869	999
Election	3,800	2,789	1,011
Township hall & grounds	12,500	9,440	3,060
Planning & Zoning	7,298	7,713	(415)
Public works	248,273	248,830	(557)
TOTAL EXPENDITURES	321,975	312,020	9,955
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(101,552)	(67,621)	33,931
FUND BALANCE - BEGINNING OF YEAR	604,075	604,075	-
FUND BALANCE - END OF YEAR	\$ 502,523	\$ 536,454	\$ 33,931

The accompanying notes are an integral part of the financial statements.

SPECIAL REVENUE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
		-	\$ 109,103	\$ 118,126	\$ 9,023
		-	9,000	12,645	3,645
		-	85,203	96,024	10,821
		-	3,797	3,797	-
	\$ 396	\$ 396	13,320	14,203	883
-	396	396	220,423	244,795	24,372
		-	10,150	7,348	2,802
		-	3,880	3,373	507
		-	8,168	8,072	96
		-	2,450	1,189	1,261
		-	10,588	9,397	1,191
		-	14,868	13,869	999
		-	3,800	2,789	1,011
		-	12,500	9,440	3,060
		-	7,298	7,713	(415)
	7,265	(7,265)	248,273	256,095	(7,822)
-	7,265	(7,265)	321,975	319,285	2,690
-	(6,869)	(6,869)	(101,552)	(74,490)	27,062
\$ 29,694	29,694	-	633,769	633,769	-
\$ 29,694	\$ 22,825	\$ (6,869)	\$ 532,217	\$ 559,279	\$ 27,062

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF TOWNSHIP OPERATIONS AND FUND TYPES:

The Watertown Township covers an area of approximately 35 square miles within Sanilac County. The Township operates under an elected Board of Trustees (5 members) and provides services to many residents in many areas including, administration of justice, community enrichment and development and human services.

The financial statements of the Watertown Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

REPORTING ENTITY:

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, the Financial Reporting Entity.

Based upon the application of these criteria, the general purpose financial statements of the Watertown Township contain all the funds and account groups controlled by the Township Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the Township nor is the Township a component unit of another entity.

SANDUSKY-WATERTOWN UTILITIES AUTHORITY:

The Sandusky-Watertown Utilities Authority was created by the City of Sandusky and Watertown Township, both located in the County of Sanilac, Michigan. The Authority is operated under a joint five (5) member Board consisting of four representatives from the City and one from the Township, the purpose of which is to acquire, own, improve, enlarge, extend, and operate a sewage disposal system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended. The sewage treatment plant is maintained and operated by the City of Sandusky.

The Sandusky-Watertown Utilities Authority is a legally separate entity, with a majority of the Board appointed by the Council of the City of Sandusky. As a result the Authority is reported as a blended component unit of the City of Sandusky. The Authority is audited as a separate entity and a separate financial report is issued.

SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION:

The Sandusky Community Fire Department Association was created on March 1, 2001, by the City of Sandusky and the Townships of Custer, Elmer and Watertown. All of the governmental entities are located in Sanilac County, Michigan. The department operates under a joint nine (9) member board consisting of two (2) representatives from each of the entities and one (1) member elected at large by the board, for the purpose of providing total fire protection to the City of Sandusky, all of Watertown Township, twenty-four (24) square miles of Custer Township, and sixteen (16) square miles of Elmer Township. The Association was established under Public Act 22, commonly known as the Fire Protection Act, which provides that adjoining cities with a population of not more than 15,000 and townships acting jointly may establish, fund, maintain and regulate a fire department for the benefit of the residents thereof.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in it Statement No. 14, the Sandusky Community Fire Department Association is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Sandusky Community Fire Department Association. The Association is audited independently and a separate financial report is issued.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

FUND ACCOUNTING:

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital project funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government.

Account groups are used to account for fixed assets and long-term liabilities that are not reported in the respective governmental funds.

BASIS OF ACCOUNTING:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used to revenue recognition for all other governmental fund revenues susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Those revenues susceptible to accrual are property taxes, federal and state grants, special assessments, licenses, interest revenue and charges for services. Fines, permits and sales tax and other state revenues are not susceptible to accrual because generally they are not measurable until received in cash.

BUDGETS AND BUDGETARY ACCOUNTING:

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

Encumbrances represent commitments related to unperformed contracts for goods or services. The Township does not utilize encumbrance accounting.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

CASH AND INVESTMENTS:

Cash includes amounts in petty cash and demand deposits. Investments included instruments allowed by state statute subsequently described. Investments are carried at amortized cost or fair value. The Township's deposits and investments are in accordance with statutory authority.

State statutes authorize the Township to invest in bonds, securities, and other direct and certain indirect obligations of the U.S. Treasury, which include securities issued or guaranteed by the Government National Mortgage Association; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase and not totaling more than 50% of any fund at any time. The Township is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES:

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

RECEIVABLES:

Receivables consist primarily of amounts for taxes and customer charges. No allowance for doubtful accounts is considered necessary and credit risk is minimal because of the large number of customers and the authority of the Township to add receivables to the tax rolls which are secured by the underlying property.

FIXED ASSETS:

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued to cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are value at their estimated fair market value on the date received. Fixed assets purchased within the proprietary funds and the non-expendable trust fund are reported as assets within those funds and accordingly, are included on their balance sheet.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. Primarily because of this policy, total expenditures for capital improvements in the governmental funds do not equal total additions to the general fixed asset account group.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed over the estimated useful lives using the straight-line method.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

INTERFUND TRANSACTIONS:

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-reoccurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

MEMORANDUM ONLY - TOTAL COLUMNS:

The total columns on the combined statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data

ESTIMATES:

The preparation of financial statements in conformity with the U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS:

Cash and investments are held separately by each of the Township's funds.

DEPOSITS:

At year-end, the carrying amount of the Township's deposits was \$556,847 and the bank balance was \$650,180, \$213,092 of which was covered by federal depository insurance.

INVESTMENTS:

The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year-end. Category 1 includes investments that are insured or registered, or securities held by the Township's or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counter-part's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At March 31, 2005, the Township had no Category 1, 2 or 3 investments.

The Township's cash, cash equivalents, investments and restricted assets at March 31, 2005 are composed of the following:

	<u>CASH AND CASH EQUIVALENTS</u>	<u>INVESTMENTS</u>	<u>RESTRICTED ASSETS</u>
General Fund:			
Deposits	\$305,500		\$221,821
Other Funds:			
Deposits			<u>\$ 29,526</u>
TOTAL	\$305,500	NONE	\$251,347

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 3 - CHANGES IN GENERAL FIXED ASSETS:

A summary of changes in general fixed assets follows:

	BALANCE MARCH 31, 2004	ADDITIONS	REDUCTIONS	BALANCE MARCH 31, 2005
GENERAL GOVERNMENT:				
Township Hall	\$200,000			\$200,000
Office Equipment	7,600	\$ 400		8,000
Furniture	2,000			2,000
TOTAL GENERAL FIXED ASSETS	\$209,800	\$ 400	\$	\$210,200

NOTE 4 - DUE TO AND FROM OTHER FUNDS:

Due to and from other funds balances at March 31, 2005 are as follows:

FUND	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$9,133	
Trust and agency:		
Current Tax Collection Fund		\$9,133
TOTAL	\$9,133	\$9,133

NOTE 5 - LEGAL COMPLIANCE - BUDGETS:

The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

1. On or prior to April 1 of each year, a proposed budget is submitted to the Board of Trustees for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the Board of Trustees.
5. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.
6. Budgets for general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Trustees during the fiscal year. Individual amendments were not material in relation to the original appropriations which were amended.
7. The budget is prepared by fund and function and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Expenditures may not exceed budget at the function level.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 6 - PROPERTY TAX REVENUE:

Property taxes become an enforceable lien on the property as of December 1. Taxes are levied on December 1 and are due in February of the following year. The Township bills and collects its own property taxes and also taxes for the county, intermediate school district, state education fund and school districts. All tax collections are accounted for in the tax collection fund, an agency fund. Township tax revenues are recognized in the fiscal year that includes the December 1 levy date. The Township levied 2.9218 mills (.9218 mills operating, 2 mills roads) on an taxable value of \$36,427,501.

NOTE 7 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township carries commercial insurance to cover any losses that may result from the above-described activities. The Township did not have any losses in the three prior fiscal years.

NOTE 8 – SEWAGE DISPOSAL SYSTEM AGREEMENTS:

The Township does not own a sewage disposal system; instead the Township has joined the Sandusky-Watertown Utilities Authority. The purpose of the Utilities Authority is to acquire, own, improve, enlarge, extend and operate a sewage disposal system and a water supply system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

Pursuant to the contract, the Township is obligated to the Utilities Authority for its share of the operations and 20.1 percent of a \$1,020,000 bond issue, interest ranging from 7.85 to 8.00 percent, which was sold by the Sandusky-Watertown Utilities Authority, as its share of the cost of a new sewage disposal system. The payments are to be made out of the Township portion of sewer fund revenues collected by the Watertown Utilities Authority with any additional monies needed coming from the Township's Special Assessment Fund.

NOTE 9 – GASB 34:

The Township chose not to adopt GASB 34, which is required by Generally Accepted Accounting Principals (GAAP). This departure from GAAP is also noted in the audit report letter.

**NOTE 10 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN
BUDGETARY FUNDS:**

P.A. 621 of 1978, section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2005 the township incurred expenditures in certain budgetary accounts, where no amounts are appropriated, as follows:

<u>LINE ITEMS</u>	<u>TOTAL APPROPRIATION</u>	<u>TOTAL EXPENDITURES</u>	<u>UNFAVORABLE BUDGET VARIANCE</u>
Sewer Assessment Fund - Expenditures	\$ 0	\$7,265	\$7,265

Supplemental Information

WATERTOWN TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE			
Current property taxes	\$ 99,703	\$ 106,941	\$ 7,238
Property Tax Collection Fee	9,400	11,185	1,785
Interest Earnings	9,000	12,645	3,645
State revenue sharing	85,203	96,024	10,821
State revenue sharing - Metro act	3,797	3,797	-
Other Revenue:			
Planning commision/Board of Appeals		1,323	
Cemetery		6,072	
Taxes in lieu of annexed area		3,301	
Miscellaneous		3,111	
Total Other Revenue	13,320	13,807	487
TOTAL REVENUE	<u>220,423</u>	<u>244,399</u>	<u>23,976</u>
EXPENDITURES			
Legislative:			
Salaries & wages - township board		2,347	
Auditing & legal fees		2,250	
Dues		795	
Supplies		1,956	
Total Legislative	10,150	7,348	2,802
Executive:			
Salaries and wages	3,880	3,373	507
Total Executive	<u>3,880</u>	<u>3,373</u>	<u>507</u>

WATERTOWN TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES: (Continued)			
Clerk:			
Salaries & wages		\$ 6,249	
Office supplies & expenses		1,823	
State revenue sharing - Metro act	\$ 8,168	8,072	\$ 96
Salaries & wages	2,450	1,189	1,261
Total Board of Review	2,450	1,189	1,261
Assessor:			
Salaries & wages		7,872	
Office supplies & expenses		1,525	
Total Assessor	10,588	9,397	1,191
Treasurer:			
Salaries & wages		10,237	
Office supplies & expenses		3,632	
Total Treasurer	14,868	13,869	999
Election:			
Salaries & wages		1,537	
Office supplies & expenses		1,252	
Total Election	3,800	2,789	1,011
Township Hall & Grounds:			
Insurance		6,938	
Utilities		2,502	
Total Township Hall & Grounds	12,500	9,440	3,060
Planning & Zoning:			
Salaries & wages		4,956	
Office supplies & expenses		2,757	
Total Planning & Zoning	7,298	7,713	(415)

WATERTOWN TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES: (Continued)			
Public Works:			
Fire Protection		\$ 58,876	
Drains at large		8,469	
Fica		3,373	
Lights		658	
Cemetery		7,068	
Metro Act		3,797	
Roads		166,589	
Total Public Works	\$ 248,273	248,830	\$ (557)
TOTAL EXPENDITURES	<u>321,975</u>	<u>312,020</u>	<u>9,955</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(101,552)</u>	<u>(67,621)</u>	<u>33,931</u>
FUND BALANCE - BEGINNING OF YEAR	<u>604,075</u>	<u>604,075</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 502,523</u></u>	<u><u>\$ 536,454</u></u>	<u><u>\$ 33,931</u></u>

See the accompanying notes.

WATERTOWN TOWNSHIP
CURRENT TAX COLLECTION FUND
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2005

	<u>BALANCE MARCH 31, 2004</u>	<u>ADDITION</u>	<u>REDUCTION</u>	<u>BALANCE MARCH 31, 2005</u>
<u>ASSETS</u>				
Cash		\$ 6,701		\$ 6,701
Taxes - receivable	\$ 8,054	922,564	\$ 851,290	79,328
<u>TOTAL ASSETS</u>	<u>\$ 8,054</u>	<u>\$ 929,265</u>	<u>\$ 851,290</u>	<u>\$ 86,029</u>
<u>LIABILITIES</u>				
Accounts payable			\$ 6,701	\$ 6,701
Due to general fund	\$ 8,054	\$ 117,044	118,123	9,133
Due to other Governmental Units	-	734,246	804,441	70,195
<u>TOTAL LIABILITIES</u>	<u>\$ 8,054</u>	<u>\$ 851,290</u>	<u>\$ 929,265</u>	<u>\$ 79,328</u>

See the accompanying notes.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

June 8, 2005

To the Board of Trustees
Watertown Township, Sanilac County, Michigan
Sandusky, Michigan 48471

The following comments related to situations brought to our attention during the course of our recent audit of the general purpose financial statements of Watertown Township, Sanilac County, Michigan for the year ended March 31, 2005 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, therefore, the following comments are not necessarily all-inclusive.

BUDGETING

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Expenditures should be compared with the budget on a monthly basis and the budget should be adjusted, if needed, before an expenditure is made in excess of a budgeted amount.

Presently, the Township does not prepare an annual budget of revenues and expenditures for the Sewer Assessment Fund that meets the State of Michigan Budget Act requirements. One of the purposes of preparing an annual budget is to use the budget as a management control device in order to control expenditures.

We would like to take this opportunity to thank the Township Board for the opportunity of serving the Township through the audit of the Township's financial statements for the year ended March 31, 2005.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS